

**DEPARTMENT OF CORRECTIONAL EDUCATION
RICHMOND, VIRGINIA**

**REPORT ON AUDIT
FOR THE TWO-YEAR PERIOD ENDED
JUNE 30, 2002**



AUDIT SUMMARY

Our audit of the Department of Correctional Education for the two-year period ended June 30, 2002 found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- no material weaknesses in internal control;
- no instances of noncompliance that are required to be reported; and
- proper resolution of the prior year finding.

- TABLE OF CONTENTS -

AUDIT SUMMARY

INDEPENDENT AUDITOR'S REPORT

AGENCY BACKGROUND AND FINANCIAL HIGHLIGHTS

AGENCY OFFICIALS

September 16, 2002

The Honorable Mark R. Warner
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Kevin G. Miller
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the **Department of Correctional Education** for the two-year period ended June 30, 2002. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objective, Scope, and Methodology

Our audit's primary objectives were to evaluate the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System, review the adequacy of the Department's internal control, and test compliance with applicable laws and regulations. We also reviewed the Department's corrective action of the audit finding from our prior year report.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Department's operations. We also tested transactions and performed such other auditing procedures we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws and regulations. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

Expenditures
Revenues
Fixed Assets

We obtained an understanding of the relevant internal control components sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether the Department's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations.

The Department's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Our audit was more limited than would be necessary to provide assurance on internal control or to provide an opinion on overall compliance with laws and regulations. Because of inherent limitations in internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of internal control to future periods is subject to the risk that the controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

Audit Conclusions

We found that the Department properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Department records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted no matters involving internal control and its operation that we consider to be material weaknesses. Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of the specific internal control component does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to financial operations may occur and not be detected promptly by employees in the normal course of performing their duties.

The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

The Department has taken adequate corrective action with respect to audit findings reported in the prior year.

This report is intended for the information of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

LCR:whb
whb:31

AGENCY BACKGROUND AND FINANCIAL HIGHLIGHTS

The Board of Correctional Education (the Board) establishes and maintains a general system of schools for persons committed to institutions operated by the Department of Corrections and the Department of Juvenile Justice. The Board, which functions like a local school board, and the Superintendent of Schools direct the operations of the Department of Correctional Education (Correctional Education).

Several organizational changes occurred during the audit period, which affected the finance and procurement areas. In October 2001, a new fiscal director was hired to improve operations within the finance department. In addition, the Deputy Superintendent for Administration and Finance left the agency in May 2002, and the procurement director retired in June 2002, and the Superintendent subsequently eliminated both of these positions.

Correctional Education offers programs in 61 adult facilities and eight youth facilities, providing academic, leadership, and vocational education opportunities for adults and youths, to facilitate successful community adjustment and improve employment opportunities. All educational staff are required to meet the same credential requirements as local school division personnel.

Financial Highlights

Correctional Education operates primarily using general fund appropriations, while federal grants and other special revenue funds also supplement the programs. Personnel services, including wage, salary, and fringe benefit costs, represent the majority of expenditures for Correctional Education, making up approximately 86 percent and 82 percent of all expenses incurred for fiscal years 2001 and 2002, respectively. Correctional Education pays Correctional Corporation of America to run the educational program at the Department of Corrections' Lawrenceville facility and incurs other contractual expenses for the grading of various standardized tests.

The following schedule summarizes revenue and expense activity for Correctional Education during fiscal years 2001 and 2002. As shown below, equipment purchases increased significantly between fiscal year 2001 and 2002. Correctional Education replaced all computer equipment in their central office in 2002, resulting in the increase in equipment expenses. Supplies and materials expense also increased in 2002 as the Department purchased additional supplies in anticipation of budget reductions in 2003 and 2004.

Operating Activity for the Fiscal Years 2001 and 2002

	<u>2001</u>	<u>2002</u>
Revenues:		
General fund appropriations	\$ 47,294,759	\$ 45,145,083
Federal grants	1,120,568	2,747,997
Contract inmate program	1,576,698	1,342,926
Sales - live work program	78,856	85,195
Sales - fall wood show	11,597	14,332
Other revenues	<u>93,075</u>	<u>164,801</u>
Total revenues	<u>50,175,553</u>	<u>49,500,334</u>
Expenses:		
Personal services	43,359,234	40,690,374
Contractual services	3,081,625	2,970,903
Supplies and materials	1,632,125	2,977,201
Payments to other State entities	298,564	678,299
Continuous charges	615,722	259,951
Property and improvements	1,313	1,808
Equipment	867,830	1,509,306
Plant and improvements	<u>52,752</u>	<u>2,172</u>
Total expenses	<u>49,909,165</u>	<u>49,090,014</u>
Cash transfers out:		
Appropriation act	1,008	24,727
Pass through payments	<u>-</u>	<u>24,006</u>
Total transfers out	<u>1,008</u>	<u>48,733</u>
Excess of revenues over expenses	<u>\$ 265,380</u>	<u>\$ 361,587</u>
Source: Commonwealth Accounting and Reporting System		

Correctional Education organizes and manages their programs and services into two categories, adult and youth programs. They manage these programs independently of each other due to the different educational requirements set forth in the Code of Virginia and since two separate agencies manage the adult and youth facilities. The following schedule show expenses for the two programs for the past four fiscal years.

Adult and Youth Program Expenses for Fiscal Years 1999-2002

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Youth programs:				
Academic	\$ 8,646,610	\$ 10,816,604	\$ 11,666,119	\$ 11,666,117
Vocational	3,535,710	3,891,488	4,095,339	4,095,339
Instructional leadership	2,161,826	2,384,053	2,329,310	2,329,310
Diagnostic and testing	1,624,073	1,762,216	1,855,285	1,326,434
Central office costs	<u>1,413,572</u>	<u>1,433,455</u>	<u>1,305,398</u>	<u>1,855,285</u>
 Total youth	 <u>17,381,791</u>	 <u>20,287,816</u>	 <u>21,251,451</u>	 <u>21,272,485</u>
Adult programs:				
Academic	9,914,531	10,019,513	10,930,849	10,956,266
Vocational	6,671,154	6,875,415	7,728,289	7,837,270
Instructional leadership	5,162,475	6,402,411	8,072,223	7,225,443
Central office costs	<u>1,925,235</u>	<u>1,771,244</u>	<u>1,926,353</u>	<u>1,798,550</u>
 Total adult	 <u>23,673,395</u>	 <u>25,068,583</u>	 <u>28,657,714</u>	 <u>27,817,529</u>
 Total for all programs	 <u>\$ 41,055,186</u>	 <u>\$ 45,356,399</u>	 <u>\$ 49,909,165</u>	 <u>\$ 49,090,014</u>

Source: Commonwealth Accounting and Reporting System

Academic programs support initiatives to help inmates attain their high school or general education diplomas as well as prepare for college. Vocational programs look to train inmates with skills in up to 37 different professions, such as auto mechanics, masonry, culinary arts, and carpentry. The instructional leadership programs provide inmates with cognitive and transitional skills training to facilitate their return to the community and the workforce.

Over the past four years Correctional Education has averaged monthly enrollments of 1,268 across all youth programs and 10,975 across all adult programs. The cost per student over the same period has averaged \$9,782 for youth programs and \$1,449 for adult programs. Compulsory attendance requirements for offenders under 18 cause the wide variance in cost per student between youth and adult programs. Youth instructors are available regardless of the number of students involved, while Correctional Education can manage adult instructors time to serve the maximum number of students. While offenders under 18 must attend educational programs, adult inmates interested in participating generally must sign up on a waiting list. Correctional Education estimates the number of adults on the waiting list at the end of fiscal year 2002 was 4,645 compared with 3,935 adults at the end of fiscal year 2001.

Overall, Correctional Education's funding and expenses increased from 1999 to 2001 primarily due to new positions and teacher parity funding. The Department received additional positions to meet Standards of Learning requirements and for programs in new correctional facilities. Correctional Education also received \$2.5 million, \$3.7 million, and \$3.0 million in teacher parity funding in fiscal years 1999, 2000, and 2001, respectively for teacher parity increases. These additional appropriations increased correctional teachers'

salaries to an amount comparable to those of public school teachers. In 1996, the General Assembly raised salaries to help Correctional Education improve the quality of candidates available for hire as well as staff retention rates.

Correctional Education did not receive funding for the parity increases in 2002, and as a result, has had to use funds normally set aside for operating and maintenance of the schools. Also, in fiscal year 2002, Correctional Education experienced a decrease in their general fund appropriations of approximately \$1 million as a result of statewide budget reductions. Correctional Education's budget for fiscal years 2003 and 2004 also does not include funding for the teacher parity increases. In addition, the current budget for fiscal 2003 and 2004 includes general fund appropriation reductions of \$2.1 and \$2.4 million, respectively. The Department is anticipating additional reductions in their general fund appropriations as a result of statewide budget actions.

Correctional Education is currently evaluating how to address the impact of decreased funding and is considering options such as eliminating as many as 75 of their 787 general fund positions. They are also considering making strategic philosophical changes in what programs to offer and where and how many individuals may participate. Further complicating Correctional Education's decision process is their dependency on decisions made by the Departments of Correction and Juvenile Justice since they manage the facilities. While the funding decreases will impact the quantity and type of programs, Correctional Education expects these changes will have more of an impact on the adult programs due to the compulsory attendance requirements for juvenile inmates.

One immediate change, effective July 1, 2002, was the temporary halt of Correctional Education's use of USL Financials (USL) to manage their procurement process. Correctional Education spent \$403,303 during fiscal years 1999, 2000, and 2001 to purchase and implement this system, which also includes an accounting module not yet in place. An additional \$114,240 covers maintenance charges for fiscal years 2001, 2002, and 2003. To continue to use the application Correctional Education would incur an additional \$100,000 in costs annually to cover staffing resources and telecommunication needs above the approximately \$40,000 in annual maintenance costs.

The upcoming budget reductions were not the only reason Correctional Education halted the use of USL. Correctional Education implemented USL on July 1, 2001, and throughout the year the system was inaccessible either due to telecommunication issues or application/server failure, including a one-week outage at the end of June 2002, delaying the procurement process. These outages also affected other applications and operations maintained on the same server. Additionally, after Correctional Education purchased USL, the Commonwealth implemented its electronic procurement system, eVA and mandated its use. To continue to use both systems efficiently, Correctional Education would need to make additional programming changes during fiscal year 2003 at their expense so that the two systems could communicate. Correctional Education is currently evaluating if and how they will use USL in the future.

DEPARTMENT OF CORRECTIONAL EDUCATION

Richmond, Virginia

Walter A. McFarlane, Superintendent

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